

Investment clubs. An association of investment clubs formed to enable members and prospective investors to make sound investments by the mutual exchange of investment information, that carries on not only educational activities but other activities directed to the support and promotion of the economic interest of its members, does not qualify for exemption under section 501(c)(3) of the Code.

Advice has been requested whether the nonprofit organization described below qualifies for exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954.

The organization is an association of investment clubs formed for the mutual exchange of investment information among its members and prospective investors to enable them to make sound investments.

The association engages in the following activities:

- (a) Prepares and publishes teaching aids for the use of its member clubs;
- (b) Conducts workshops, seminars, and courses at which manuals designed for the review of securities and especially suited for investment club requirements are distributed to members and prospective investors;
- (c) Sponsors lectures at which qualified experts discuss topics relating to the management of a stock portfolio;
- (d) Arranges field trips to business offices, factories, banks, and stock exchanges;
- (e) Publishes a monthly newsletter of interest to individual investors;
- (f) Encourages and aids in the formation of new investment clubs;
- (g) Establishes and enforces standards for the operation of investment clubs;
- (h) Issues certificates of qualification to investment personnel who are capable of organizing and operating new clubs; and
- (i) Provides individual clubs with technical advice on their organizational, bookkeeping, and operational problems.

The association supports itself with receipts from four sources: (1) membership dues; (2) fees for organizing and chartering investment clubs; (3) annual service fees for the

operation of the association's educational programs; and (4) income from publications.

Section 501(c)(3) of the Code provides for the exemption from Federal income tax of organizations organized and operated exclusively for charitable or educational purposes.

Section 1.501(c)(3)-1(d)(1)(ii) of the Income Tax Regulations provides that an organization is not organized or operated for exempt purposes unless it serves a public rather than a private interest.

The term 'educational' is used in section 501(c)(3) of the Code in its general legal sense in the law of charities and does not have a separate and distinct meaning from the term 'charitable.'

In construing the meaning of the phrase 'exclusively for educational purposes' in *Better Business Bureau v. United States*, 326 U.S. 279 (1945), Ct. D. 1650, 1945 C.B. 375, the Supreme Court of the United States said, 'This plainly means that the presence of a single noneducational purpose, if substantial in nature, will destroy the exemption regardless of the number or importance of truly educational purposes.'

While some of the association's activities are educational, and of the kind that might be carried on by an organization described in section 501(c)(3) of the Code, many of the activities listed above are directed in whole or in part to the support and promotion of the economic interests of the investment clubs that comprise its membership. These activities are not in furtherance of charitable and educational purposes. Further, by furnishing information to prospective investors to enable them to make sound investments, the association is serving private interests. Thus, the organization's purposes, not only as declared but also as evidenced by its activities, are not exclusively educational.

Accordingly, the association is not organized and operated exclusively for charitable and educational purposes, and thus does not qualify for exemption from Federal income tax under section 501(c)(3) of the Code.